

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00
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R 131653Z DEC 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4048
INFO AMCONSUL FRANKFURT
AMEMBASSY TEHRAN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY LONDON
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY DOHA
USMISSION EC BRUSSELS

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E.O. 11652: N/A
TAGS: ENRG, GW, IR
SUBJECT: FRG POSITION ON SHAH'S PROPOSAL FOR
BILATERAL INDEXING OF OIL PRICES

1. IN NOVEMBER THE SHAH OF IRAN SUGGESTED IN AN
INTERVIEW WITH "DER SPIEGEL" THAT HIS GOVERNMENT WOULD
BE WILLING TO TIE OIL PRICES FOR GERMANY TO AN INDEX OF
GERMAN EXPORT PRICES OF MANUFACTURED GOODS.
SPECIFICALLY, HIS PROPOSAL PROVIDED FOR TWO PRICES:
THE WORLD PRICE FOR OIL AND A PRICE TIED TO INCREASES
IN GERMAN EXPORT PRICES. SEVENTY-FIVE PERCENT OF THE
TOTAL QUANTITY OF OIL PURCHASES BY THE FRG FROM IRAN
WOULD BE SOLD AT THE INDEXED RATE; THE REMAINING
TWENTY-FIVE PERCENT WOULD BE SOLD AT THE WORLD PRICE.
FURTHER DETAILS, SUCH AS THE MARKET BASKET USED FOR
CALCULATING THE PRICE RISE, WOULD BE LEFT FOR DISCUSSION
IF THE FRG WAS INTERESTED. THE SHAH ALSO OFFERED IN
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THE INTERVIEW TO GIVE FRANCE, ITALY AND OTHER DEVELOPED

NATIONS THE OPTION OF ENTERING INTO SIMILAR BILATERAL INDEXING AGREEMENTS WITH IRAN.

2. THE FIRST OFFICIAL GERMAN REACTION CAME FROM ECON MINISTER FRIDERICH, WHO NOTED THAT IRAN HAD MADE SIMILAR SUGGESTIONS BEFORE. HE BELIEVED THAT, FOR TECHNICAL REASONS, IT WOULD BE DIFFICULT TO CARRY THROUGH THE PRESENT PROPOSAL AND THAT IT CARRIED WITH IT PROBLEMS FOR THE ENTIRE WORLD ECONOMY. HE COULD NOT IMAGINE THAT THE OIL EXPORTERS WOULD BE WILLING TO FIX DIFFERING PRICES FROM BUYER TO BUYER, NOTING THAT THE MOVEMENT OF OIL WITHIN EUROPE WAS SUFFICIENTLY FLUID TO PERMIT TRANSSHIPMENTS FROM LOW INFLATION TO HIGH INFLATION BUYERS. HOWEVER, FRIDERICH DID NOT CLOSE THE DOOR ENTIRELY, STATING THAT ONE SHOULD NOT "SAY NO TO SUCH A PROPOSAL IMMEDIATELY", WITHOUT EXAMINING IT CAREFULLY.

3. IN DISCUSSING FRIDERICH'S STATEMENT WITH ECONMIN OFFICIALS, EMBOFF LEARNED THAT THE SHAH'S PROPOSAL IS IN FACT NOT REPEAT NOT BEING EXAMINED BY THE FRG. SOURCE CAUTIONED THAT THE FRG MAY RECONSIDER SHAH'S PROPOSAL IF OTHER COUNTRIES (FRANCE) SHOULD SHOW AN INTEREST IN IT.

4. ASIDE FROM HIS PROPOSAL FOR BILATERAL INDEXING, THE SHAH GENERALLY COVERED FAMILIAR GROUND. HE COMPLAINED ABOUT THE SIGNIFICANT LOSS IN OPEC PURCHASING POWER, FELT THAT THE PRICE OF OIL HAD A MINIMAL IMPACT ON GLOBAL INFLATION, AND THOUGHT THAT NORTH SEA OIL WOULD MITIGATE THE ECONOMIC HARDSHIP UPON ENGLAND. HE DID SHOW A SOMEWHAT SOFTENED ATTITUDE ON THE SIZE OF THE OPEC PRICE INCREASE, SAYING THAT A FIFTEEN PERCENT INCREASE WAS "VERY REASONABLE". STOESSEL

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